

Hospital margins and their uses

ISSUE: How does MedPAC use various hospital margins?

KEY POINTS: MedPAC uses two types of hospital margins in its payment policy work—an overall Medicare margin and margins for each Medicare service component. In addition, one other type—the total margin—is used for context.

The overall Medicare margin, which encompasses the six largest Medicare services plus graduate medical education—is used primarily to measure the relationship of current Medicare payments and costs in our annual assessment of payment adequacy. We examine this relationship for the hospital as a whole because we suspect that the allocation of costs among service lines is biased in the Medicare cost report.

The primary purpose of component margins is to analyze the distribution of payments within a specific PPS, including the impact of policy changes under consideration. The overall Medicare margin does not work well for this purpose because it reflects payments and costs outside of the PPS under consideration, which confound the analysis.

The total hospital margin, which covers payments from all payers as well as non-patient sources, does not play a direct role in MedPAC's Medicare policy deliberations, but may provide useful context.

ACTION: No action is needed, but this session will provide an opportunity for the Commission to discuss our use of margins.

STAFF CONTACT: Jack Ashby (202-220-3737)